

Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	68,101,132	Current Liabilities	73,515,855
Cash and deposits	14,203,589	Notes and accounts payable-trade	8,696,298
Notes and accounts receivable-trade	25,031,493	Electronically recorded obligations - operating	8,143,777
Electronically recorded monetary claims - operating	1,910,597	Short-term borrowings	38,001,952
Merchandise and finished goods	9,355,428	Current portion of long-term borrowings	5,122,048
Work in process	8,072,136	Lease obligations	778,877
Raw materials and supplies	5,327,629	Accrued income taxes	989,741
Deferred tax assets	1,760,952	Reserve for bonuses	1,673,670
Others	2,478,271	Reserve for Directors' bonuses	121,100
Allowance for doubtful accounts	(38,966)	Reserve for compensation for products	335,736
		Electronically recorded obligations - non-operating	2,401,527
		Others	7,251,125
Fixed assets	87,183,334	Non-Current Liabilities	28,803,811
Tangible fixed assets	63,290,045	Long-term borrowings	15,623,481
Buildings and structures	17,705,128	Lease obligations	3,785,811
Machinery, equipment and vehicles	26,926,944	Deferred tax liabilities	2,299,523
Land	9,714,712	Provision for environmental measures	27,483
Leased assets	3,376,619	Net defined benefit liability	6,518,116
Construction in progress	4,506,277	Asset retirement obligations	17,720
Others	1,060,362	Negative goodwill	2,159
		Others	529,513
Intangible fixed assets	16,631,658	Total Liabilities	102,319,666
Goodwill	11,555,766	Net Assets	
Leased assets	82,142	Shareholders' equity	47,249,645
Others	4,993,748	Capital stock	7,273,178
		Capital surplus	8,821,705
Investments and other assets	7,261,630	Retained earnings	32,576,356
Investment securities	4,301,571	Treasury stocks	(1,421,594)
Long-term loans	275,765	Accumulated other comprehensive income	(2,018,603)
Net defined benefit asset	17,311	Net unrealized gain (loss) on securities	1,145,635
Deferred tax assets	1,458,003	Foreign currency translation adjustments	(1,114,666)
Others	1,257,964	Remeasurements of defined benefit plans	(2,049,572)
Allowance for doubtful accounts	(48,987)	Non-controlling interests in consolidated subsidiaries	7,733,759
Total Assets	155,284,467	Total Net Assets	52,964,800
		Total Liabilities and Net Assets	155,284,467

(Note) Amounts are rounded down to the nearest 1,000 yen.

Consolidated Statement of Income

(From: April 1, 2016
To: March 31, 2017)

(Unit: 1,000 Yen)

Account	Amount	
Net sales		85,073,690
Cost of sales		62,982,252
Gross profit on sales		22,091,438
Selling, general and administrative expenses		16,987,463
Operating income		5,103,974
Non-operating income		
Interest and dividend income	126,978	
Amortization of negative goodwill	533	
Equity in earnings of unconsolidated subsidiaries and associates	49,645	
Proceeds on sale of scraps	536,134	
Others	409,996	1,123,288
Non-operating expenses		
Interest expense	455,314	
Foreign exchange losses	101,518	
Others	242,766	799,599
Ordinary income		5,427,663
Extraordinary gains		
Subsidy income	200,000	200,000
Extraordinary losses		
Impairment loss	2,449,581	2,449,581
Profit before income taxes		3,178,081
Corporation tax, inhabitant tax and business tax	1,714,694	
Income taxes-deferred	(1,086,477)	628,216
Profit		2,549,864
Profit (loss) attributable to non-controlling interests		(85,894)
Profit attributable to owners of parent		2,635,759

(Note) Amounts are rounded down to the nearest 1,000 yen.

Consolidated Statements of Changes in Shareholders' Equity

(From: April 1, 2016
To: March 31, 2017)

(Unit: 1,000 Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stocks	Total shareholders' equity
Balance at the beginning of the period	7,273,178	8,821,612	31,055,453	(1,421,016)	45,729,227
Changes during the period					
Dividends paid			(1,114,856)		(1,114,856)
Profit attributable to parent company			2,635,759		2,635,759
Acquisition of treasury stocks				(577)	(577)
Change in controlling interests of parent arising from transactions with non-controlling shareholders		92			92
Net change in items other than shareholders' equity during the period					
Total changes during the period	—	92	1,520,902	(577)	1,520,417
Balance at the end of the period	7,273,178	8,821,705	32,576,356	(1,421,594)	47,249,645

(Unit: 1,000 Yen)

	Accumulated other comprehensive income				Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	886,829	(159,513)	(2,480,938)	(1,753,622)	8,172,639	52,148,245
Changes during the period						
Dividends paid						(1,114,856)
Profit attributable to parent company						2,635,759
Acquisition of treasury stocks						(577)
Change in controlling interests of parent arising from transactions with non-controlling shareholders						92
Net change in items other than shareholders' equity during the period	258,806	(955,153)	431,365	(264,981)	(438,879)	(703,861)
Total changes during the period	258,806	(955,153)	431,365	(264,981)	(438,879)	816,555
Balance at the end of the period	1,145,635	(1,114,666)	(2,049,572)	(2,018,603)	7,733,759	52,964,800

(Note) Amounts are rounded down to the nearest 1,000 yen.

Notes to Consolidated Financial Statements

I. Significant Matters that Form the Basis of Presenting the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries

32 companies

Names of consolidated subsidiaries

DAIDO LOGITECH CO., LTD.
DAIDO METAL SALES CO., LTD.
Daido Plain Bearings Co., Ltd.
NDC Co., Ltd.
NDC Sales Co., Ltd.
Daido Industrial Bearings Japan Co., Ltd.
Asia Kelmet Co., Ltd.
DAIDO METAL SAGA CO., LTD.
Iino Holding Ltd.
Iino Manufacturing Co., Ltd.
ATA Casting Technology Japan Co., Ltd.
Daido Precision Metal (Suzhou) Co., Ltd.
IINO (Foshan) Technology Co., Ltd.
Chung Yuan Daido Co., Ltd.
Dong Sung Metal Co., Ltd.
Dyna Metal Co., Ltd.
ATA Casting Technology Co., Ltd.
PT. Daido Metal Indonesia
PT. IINO INDONESIA
PHILIPPINE IINO CORPORATION
SUPER CUB FINANCIAL CORPORATION
Daido Metal U.S.A. Inc.
ISS America, Inc.
Daido Metal Mexico, S.A. de C.V.
Daido Metal Mexico Sales, S.A. de C.V.
ISS MEXICO MANUFACTURING S.A. de C.V.
Daido Industrial Bearings Europe Limited
DAIDO METAL EUROPE LIMITED
DAIDO METAL KOTOR AD
Daido Metal Europe GmbH.
Daido Metal Russia LLC
DAIDO METAL CZECH s.r.o.

Change in the scope of consolidation

Iino Holding Ltd. and its subsidiaries, and ATA Casting Technology Japan Co., Ltd. and its subsidiaries have been included in the scope of consolidation as the Company acquired them during the consolidated fiscal year under review.

(2) Names of unconsolidated subsidiaries

Korea Dry Bearing Co., Ltd.
Chung Yuan Daido (Guangzhou) Co., Ltd.
DMS Korea Co., Ltd.

Reason for exclusion from scope of consolidation

Korea Dry Bearing Co., Ltd., Chung Yuan Daido (Guangzhou) Co., Ltd., and DMS Korea Co., Ltd. have been excluded from the scope of consolidation because these companies are immaterial from the Group's point of view in terms of total assets, revenue and net income or loss for the year and do not have a significant impact on the net assets, financial position and results of operations of the Group.

2. Application of equity method

(1) Number of unconsolidated subsidiaries and associates to which the equity method was applied

	3 companies
Names of companies	(Unconsolidated subsidiary) Korea Dry Bearing Co., Ltd.
	(Associates) BBL Daido Private Limited Shippo Asahi Moulds (Thailand) Co., Ltd.

Shippo Asahi Moulds (Thailand) Co., Ltd. has become an associated company as a result of the Company's acquisition of the shares of ATA Casting Technology Japan Co., Ltd. during the consolidated fiscal year under review.

(2) Names of unconsolidated subsidiaries and associates to which the equity method was not applied

	(Unconsolidated subsidiaries) Chung Yuan Daido (Guangzhou) Co., Ltd. DMS Korea Co., Ltd.
Reason for non-application of equity method	Chung Yuan Daido (Guangzhou) Co., Ltd. and DMS Korea Co., Ltd. are immaterial from the Group's point of view in terms of total assets, revenue and net income or loss for the year and do not have a significant impact on the net assets, financial position and results of operations of the Group.

(3) Special mention regarding the application of equity method

For companies consolidated under equity method with closing dates different from the consolidated closing date, financial statements as of their year-end are used.

3. Matters relating to the accounting period of consolidated subsidiaries

The closing date for Daido Metal U.S.A. Inc., DAIDO METAL KOTOR AD, Daido Industrial Bearings Europe Limited, DAIDO METAL CZECH s.r.o., Dyna Metal Co., Ltd., Chung Yuan Daido Co., PT. Daido Metal Indonesia, Dong Sung Metal Co., Ltd., Daido Precision Metal (Suzhou) Co., Ltd., Daido Metal Europe GmbH., DAIDO METAL EUROPE LIMITED, Daido Metal Russia LLC, Daido Metal Mexico, S.A. de C.V., Daido Metal Mexico Sales, S.A. de C.V., PHILIPPINE IINO CORPORATION, IINO (Foshan) Technology Co., Ltd., ISS America, Inc., ISS MEXICO MANUFACTURING S.A. de C.V., PT. IINO INDONESIA, and SUPER CUB FINANCIAL CORPORATION is December 31.

Financial statements as of the same date are used in compiling the consolidated financial statements as of March 31, with necessary adjustment for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

4. Matters relating to accounting policies

(1) Basis and method of valuation of important assets

1) Basis and method of valuation of securities

Other securities

Securities with market value Stated at market value based on the market price at the balance sheet date (Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)

Securities without market value Stated at cost using moving average method

2) Basis and method of valuation of derivatives

Stated at market value

3) Basis and method of valuation of inventories

Basis of valuation is in accordance with the cost basis (with writing down of the carrying value based on any decreased profitability).

(a) Merchandise and finished goods Principally by weighted average method

(b) Work in process Principally by weighted average method

(c) Raw materials Principally by weighted average method

(d) Supplies Principally by moving average method

- (2) Method of depreciation of important depreciable assets
- 1) Tangible fixed assets (excluding leased assets)

The Company and six domestic consolidated subsidiaries use the declining balance method (with the exception of buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, for which the straight-line method is used), while other subsidiaries use the straight-line method.

Estimated useful lives of major assets are as follows:

Buildings and structures	3-60 years
Machinery, equipment and vehicles	4-10 years
 - 2) Intangible fixed assets (excluding leased assets)

Straight-line method is used.
 - 3) Leased assets
 - Leased assets relating to finance lease transactions which transfer the ownership of leased assets
The same depreciation method as applied to self-owned fixed assets is used.
 - Leased assets relating to finance lease transactions which do not transfer the ownership of leased assets
Straight-line method based on the depreciation period equal to the lease period and residual value of zero is used.
- (3) Reserves and Provisions
- 1) Allowance for doubtful accounts

In order to prepare for any losses arising from bad debt receivables, an amount estimated to be unrecoverable is provided. General reserve is calculated based on the past loss experience, and specific reserve is calculated by reviewing the probability of recovery in each individual case where there is concern over claims.
 - 2) Reserve for bonuses

An amount corresponding to the period out of the estimated amount of bonuses payable to employees is provided.
 - 3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.
 - 4) Reserve for compensation for products

In order to prepare for any expenditure for quality claims an estimated amount required to be paid in future is provided.
 - 5) Provision for environmental measures

In order to prepare for the payment of disposal cost of PCB wastes required as stipulated by the "Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes" the estimated disposal cost is provided.
- (4) Other significant matters for presentation of consolidated financial statements
- 1) Accounting for retirement benefits

In order to prepare for the payment of retirement benefits to employees (excluding operating officers etc.), an amount estimated to have occurred at the balance sheet date is provided based on the projected benefit obligation and plan assets at the balance sheet date.

When calculating retirement benefit obligations the benefit formula basis is used to allocate to the current period. Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over the average remaining service years of employees at the time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over the average remaining service years of employees at the time of occurrence thereof in each consolidated fiscal year is expensed starting from the consolidated fiscal year that follows the consolidated fiscal year of occurrence.

In order to prepare for the payment of retirement benefits to operating officers etc., the amount that would need to be paid if all eligible officers retired at the balance sheet date is provided.
 - 2) Conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses. Assets and liabilities, income and expenses of overseas subsidiaries are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded in net assets as foreign currency translation adjustments and non-controlling interests.
 - 3) Amortization of goodwill and the amortization period

Goodwill is amortized by the straight-line method within a period of 14 years based on the estimated period during which the benefits are expected to arise.
 - 4) Accounting method of consumption taxes

Consumption taxes are accounted for by the tax-excluded method.

II. Changes in Accounting Policy

Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

In line with the revisions to the Corporation Tax Act of Japan, the Company applied the practical solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the consolidated fiscal year under review. Accordingly, the depreciation method for facilities annexed to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the consolidated fiscal year under review is minor.

III. Changes in Presentation

Consolidated Statement of Income

Proceeds on sale of waste fluids (129,851 thousand yen for the fiscal year ended March 31, 2016, 143,717 thousand yen for the fiscal year ended March 31, 2017), which was included in others under non-operating income in the previous consolidated fiscal year, is included in proceeds on sale of scraps from the consolidated fiscal year under review due to an increase in significance.

(Additional Information)

Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the consolidated fiscal year under review.

IV. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets	81,651,007	thousand yen
2. Assets pledged as collateral, and liabilities secured by collateral		
Assets pledged as collateral		
Buildings and structures	772,762	thousand yen
Machinery, equipment and vehicles	1,627,260	
Land	3,366,009	
Other tangible fixed assets	7,791	
Total	<u>5,773,824</u>	
Liabilities secured by collateral		
Short-term borrowings	1,893,600	thousand yen
Long-term borrowings (including amounts scheduled to be repaid within one year)	917,489	
Total	<u>2,811,089</u>	
3. Liabilities for guarantee		
Employee housing loans etc.	168,298	thousand yen
4. Notes receivable discounted or transferred by endorsement		
Discounted export bills	26,063	thousand yen

V. Notes to Consolidated Statement of Changes in Shareholders' Equity

1. Total number of shares issued as of the end of the period

Ordinary shares 44,956 thousand shares

2. Matters relating to dividend

(1) Total dividends paid

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting held on June 29, 2016	Ordinary share	517,614	13.00	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 14, 2016	Ordinary share	597,242	15.00	September 30, 2016	December 7, 2016

(2) Dividends with base date in the consolidated fiscal year under review, which come into effect in the following consolidated fiscal year

It is scheduled to be resolved as follows:

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting to be held on June 29, 2017	Ordinary share	597,238	15.00	March 31, 2017	June 30, 2017

Dividends will be paid out of retained earnings.

VI. Notes on Financial Instruments

1. Matters relating to financial instruments

The Group invests its excess cash in short-term deposits and other low risk products, and the funding needs are met by the borrowings from financial institutions such as banks.

The credit risk of customers with regard to notes, accounts receivable-trade, and electronically recorded monetary claims – operating are mitigated according to credit management policy. Investment securities consist mainly of shares, and the market values of listed shares are reviewed each quarter.

Borrowings are used for working capital (mainly short-term) and capital investment (long-term). Currency swap transactions are made for some foreign currency denominated borrowings against the risk of currency fluctuations.

Derivative transactions are made within the scope of actual demand in accordance with internal management regulations.

2. Matters relating to market values of financial instruments

Book value, market value and differences as of March 31, 2017 are as follows:

(Unit: 1,000 yen)

	Book value (*)	Market value (*)	Difference
(1) Cash and deposits	14,203,589	14,203,589	—
(2) Notes and accounts receivable-trade	25,031,493	25,031,493	—
(3) Electronically recorded monetary claims – operating	1,910,597	1,910,597	—
(4) Investment securities	2,978,522	2,978,522	—
(5) Notes and accounts payable-trade	(8,696,298)	(8,696,298)	—
(6) Electronically recorded obligations – operating	(8,143,777)	(8,143,777)	—
(7) Short-term borrowings	(38,001,952)	(38,001,952)	—
(8) Income taxes payable	(989,741)	(989,741)	—
(9) Long-term borrowings (including amounts scheduled to be repaid within one year)	(20,745,529)	(20,777,928)	(32,398)
(10) Electronically recorded obligations - non-operating	(2,401,527)	(2,401,527)	—
(11) Lease obligations	(4,564,689)	(4,635,332)	(70,643)

(*) Items recorded in liabilities are shown in ().

(Note 1) Calculation of market values of financial instruments, securities, and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade (3) Electronically recorded monetary claims – operating

These are stated at their carrying values because they are settled in a short period and their market values are considered to be close to their carrying values.

(4) Investment securities

Market values of equities are based on quotations in the stock exchange, and the market values of other securities are based on reasonable estimates.

(5) Notes and accounts payable-trade, (6) Electronically recorded obligations – operating, (7) Short-term borrowings, (8) Income taxes payable and (10) Electronically recorded obligations - non-operating

These are stated at their carrying values because they are settled in a short period and their market values are considered to be close to their

carrying values.

(9) Long-term borrowings (including amounts scheduled to be repaid within one year) and (11) Lease obligations

Market values of these items are calculated by discounting the total amount of principal and interest by a rate that is assumed if the same transaction were newly made. Among long-term borrowings, those at variable interest rates are stated at their carrying values because they reflect market interest rates in the short term and the Company's credit status has not changed significantly since the execution, and thus their market values approximate their carrying values.

(Note 2) As it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 1,323,049 thousand yen) because their market quotations are not available and their future cash flows cannot be estimated, they are not included in "(4) Investment securities."

VII. Notes on Rental Properties

1. Matters relating to rental properties

The Group owns rental properties in Nagoya city and in other areas.

2. Matters relating to market values of rental properties

(Unit: 1,000 yen)

Book value	Market value
740,852	4,992,412

(Notes) 1. The amount recorded in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

2. The market value at the balance sheet date represents an amount principally based on the "real-estate appraisal standards."

VIII. Notes on Per Share Information

1. Net assets per share

1,136.00 yen

2. Net income per share

66.19 yen

* As stated in "Change in accounting policy," the Business Combinations Standard etc. have been applied.

IX. Notes on Business Combinations

1. Business combination through acquisition

(1) Summary of the business combination

1) Name of the acquired company and description of its business

Name of the acquired company: Iino Holding Ltd.

Description of the business: Control and management of subsidiaries that manufacture and sell various parts for automobiles, motorcycles, and general-purpose machines

2) Reasons for the business combination

The Company expects that this acquisition will strengthen product offering to existing customers of the Group. Moreover, gaining access to the Company's wide customer base in the automotive industry in Japan and overseas, Iino Holding Ltd. and its subsidiaries can expect increased sales and further enhancement of their financial performance.

Therefore, the Company believes this will lead to product and business diversification and expansion for the Group over the medium to long term.

3) Date of the business combination

December 6, 2016 (Stock acquisition date)

December 31, 2016 (Deemed acquisition date)

4) Legal form of the business combination

Stock acquisition with cash as consideration

5) Name of the entity after the business combination

Iino Holding Ltd.

6) Percentage of voting rights acquired by the Company

100.0%

7) Primary reason for determining that the Company is the acquiring company

The Company acquired 100% of the stock of Iino Holding Ltd. against cash.

(2) Period of the acquired company's financial results included in the consolidated financial statements

From January 1, 2016 to March 31, 2017

(3) Acquisition cost and breakdown of consideration

Consideration for the acquisition: Cash 10,000 million yen

Acquisition cost 10,000

(4) Major expenses related to the acquisition and their amounts

Advisory expenses, etc.: 230 million yen

(5) Amount and cause of the resulting goodwill and the applicable amortization method and period

1) Amount of goodwill

3,324 million yen

The amount of goodwill has been revised to the above-stated amount with the conclusion of Purchase Price Allocation.

2) Source of goodwill

Goodwill arose from reasonable estimates of future excess earning power.

3) Amortization method and period

Straight-line method over 10 years

(6) Amounts of assets acquired and liabilities assumed on the business combination date and their breakdown

	Millions of yen
Current assets	5,821
Non-current assets	7,916
Total assets	<u>13,737</u>
Current liabilities	1,882
Non-current liabilities	4,987
Total liabilities	<u>6,870</u>

(7) Amounts allocated to intangible fixed assets other than goodwill and breakdown by type and weighted average life for depreciation

Type	Amount	Weighted average life
Customer-related assets	3,534 million yen	17.0 years

2. Business combination through acquisition

(1) Summary of the business combination

1) Name of the acquired company and description of its business

Name of the acquired company: ATA Casting Technology Japan Co., Ltd.

Description of the business: Design and development of aluminium die cast automotive parts

2) Reasons for the business combination

The Company expects that this acquisition will strengthen product offering to existing customers of the Group. Moreover, gaining access to the Company's wide customer base in the automotive industry in Japan and overseas, ATA Casting Technology Japan Co., Ltd. and ATA Casting Technology Co., Ltd. can expect increased sales and further enhancement of their financial performance.

Therefore, the Company believes this will lead to product and business diversification and expansion for the Group over the medium to long term.

3) Date of the business combination

January 31, 2017 (Stock acquisition date)

March 31, 2017 (Deemed acquisition date)

4) Legal form of the business combination

Stock acquisition with cash as consideration

5) Name of the entity after the business combination

ATA Casting Technology Japan Co., Ltd.

6) Percentage of voting rights acquired by the Company

100.0%

7) Primary reason for determining that the Company is the acquiring company

The Company acquired 100% of the stock of ATA Casting Technology Japan Co., Ltd. against cash.

(2) Period of the acquired company's financial results included in the consolidated financial statements

The acquired company's financial results are not included in the consolidated statement of income for the consolidated fiscal year under review because the deemed date of acquisition of the acquired company is March 31, 2017.

(3) Acquisition cost and breakdown of consideration

<u>Consideration for the acquisition:</u>	<u>Cash</u>	<u>12,400 million yen</u>
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Acquisition cost	12,400
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(4) Major expenses related to the acquisition and their amounts

Advisory expenses, etc.: 139 million yen

(5) Amount and cause of the resulting goodwill and the applicable amortization method and period

1) Amount of goodwill

8,069 million yen

The amount of goodwill is a provisional amount because allocation of the acquisition cost was not completed at the end of the consolidated fiscal year under review.

2) Source of goodwill

Goodwill arose from reasonable estimates of future excess earning power.

3) Amortization method and period

Straight-line method over 14 years

(6) Amounts of assets acquired and liabilities assumed on the business combination date and their breakdown

	Millions of yen
Current assets	3,225
Non-current assets	3,685
Total assets	<u>6,911</u>
Current liabilities	1,789
Non-current liabilities	790
Total liabilities	<u>2,580</u>

Non-Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	34,919,237	Current liabilities	45,521,574
Cash and deposits	2,385,984	Accounts payable-trade	5,699,312
Notes receivable-trade	451,397	Electronically recorded obligations - operating	9,834,814
Accounts receivable-trade	17,726,711	Short-term borrowings	19,100,000
Electronically recorded monetary claims – operating	2,003,038	Current portion of long-term borrowings	3,427,100
Merchandise and finished goods	1,558,352	Lease obligations	298,670
Work in process	3,343,947	Other accounts payable	2,236,251
Raw materials and supplies	1,578,716	Accrued expenses	866,796
Prepaid expenses	166,015	Accrued income taxes	467,376
Deferred tax assets	874,947	Advances received	197
Short-term loans receivable from subsidiaries and associates	1,200,000	Deposits received	64,178
Accounts receivable-other	3,473,264	Unearned revenue	25,764
Others	157,262	Reserve for bonuses	1,079,942
Allowance for doubtful accounts	(400)	Reserve for Directors' bonuses	121,100
		Electronically recorded obligations - non-operating	2,299,083
		Others	987
Fixed assets	67,911,772	Non-current liabilities	16,601,618
Tangible fixed assets	21,191,963	Long-term borrowings	10,302,500
Buildings	6,535,004	Lease obligations	1,845,830
Structures	609,834	Long-term accounts payable	349,330
Machinery and equipment	6,112,558	Deferred tax liabilities	262,503
Cars and vehicles	7,662	Reserve for retirement benefits	3,454,617
Tools, furniture and fixtures	323,469	Provision for environmental measures	1,435
Land	3,671,939	Provision for loss on guarantees	342,629
Leased assets	2,195,696	Asset retirement obligations	1,800
Construction in progress	1,735,798	Others	40,971
Intangible fixed assets	1,238,651	Total Liabilities	62,123,193
Software	1,180,058		
Leased assets	12,906	Net Assets	
Right for using facilities	16,848	Shareholders' equity	39,714,157
Others	28,837	Capital stock	7,273,178
Investments and other assets	45,481,157	Capital surplus	7,946,245
Investment securities	1,849,690	Legal capital surplus	7,649,095
Shares of subsidiaries and associates	31,742,587	Other capital surplus	297,150
Investments in capital of subsidiaries and associates	7,862,329	Retained earnings	25,916,328
Long-term loans receivable from subsidiaries and associates	1,350,000	Legal retained earnings	743,443
Long-term loans to employees	18,549	Other retained earnings	
Bankruptcy and reorganization claims etc.	2,083	Reserve for compressed entry of fixed assets	1,738,371
Long-term prepaid expenses	21,402	General reserve	21,000,000
Prepaid pension expenses	1,676,992	Retained earnings brought forward	2,434,513
Others	970,745	Treasury stocks	(1,421,594)
Allowance for doubtful accounts	(13,223)	Valuation, translation adjustments and other	993,658
		Net unrealized gain (loss) on securities	993,658
Total Assets	102,831,009	Total Net Assets	40,707,816
		Total Liabilities and Net Assets	102,831,009

(Note) Amounts are rounded down to the nearest 1,000 yen.

Non-Consolidated Statement of Income

(From: April 1, 2016
To: March 31, 2017)

(Unit: 1,000 Yen)

Account	Amount	
Net sales		63,345,882
Cost of sales		50,932,449
Gross profit on sales		12,413,432
Selling, general and administrative expenses		9,717,441
Operating income		2,695,991
Non-operating income		
Interest and dividend income	1,114,815	
Proceeds from sale of scrap	334,041	
Others	547,718	1,996,575
Non-operating expenses		
Interest expense	107,792	
Foreign exchange losses	24,655	
Others	59,751	192,198
Ordinary income		4,500,368
Extraordinary gains		
Subsidy income	200,000	200,000
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	4,102,258	
Provision for loss on guarantees	342,629	4,444,888
Profit before income taxes		255,479
Corporation tax, inhabitant tax and business tax	738,479	
Income taxes-deferred	94,169	832,649
Loss		(577,170)

(Note) Amounts are rounded down to the nearest 1,000 yen.

Non-Consolidated Statements of Changes in Shareholders' Equity

(From: April 1, 2016
To: March 31, 2017)

(Unit: 1,000 Yen)

	Shareholders' equity			
	Capital stock	Capital surplus		Retained earnings
		Legal capital surplus	Other capital surplus	Legal retained earnings
Balance at the beginning of the period	7,273,178	7,649,095	297,150	743,443
Changes during the period				
Provision of reserve for compressed entry of fixed assets				
Reversal of reserve for compressed entry of fixed assets				
Reversal of general reserve				
Dividend of surplus				
Net Loss of the period				
Acquisition of treasury stocks				
Changes (net) to items other than shareholders' equity during the period				
Total changes during the period	—	—	—	—
Balance at the end of the period	7,273,178	7,649,095	297,150	743,443

(Unit: 1,000 Yen)

	Shareholders' equity				
	Retained earnings			Treasury stocks	Total shareholders' equity
	Other retained earnings		Retained earnings brought forward		
	Reserve for compressed entry of fixed assets	General reserve			
Balance at the beginning of the period	1,616,618	19,000,000	6,248,293	(1,421,016)	41,406,762
Changes during the period					
Provision of reserve for compressed entry of fixed assets	138,800		(138,800)		—
Reversal of reserve for compressed entry of fixed assets	(17,046)		17,046		—
Reversal of general reserve		2,000,000	(2,000,000)		—
Dividend of surplus			(1,114,856)		(1,114,856)
Net Loss of the period			(577,170)		(577,170)
Acquisition of treasury stocks				(577)	(577)
Changes (net) to items other than shareholders' equity during the period					
Total changes during the period	121,753	2,000,000	(3,813,780)	(577)	(1,692,604)
Balance at the end of the period	1,738,371	21,000,000	2,434,513	(1,421,594)	39,714,157

(Unit: 1,000 Yen)

	Valuation, conversion adjustments etc.		Total net assets
	Net unrealized gain (loss) on securities	Total valuation, translation adjustments and other	
Balance at the beginning of the period	793,161	793,161	42,199,924
Changes during the period			
Provision of reserve for compressed entry of fixed assets			—
Reversal of reserve for compressed entry of fixed assets			—
Reversal of general reserve			—
Dividend of surplus			(1,114,856)
Net Loss of the period			(577,170)
Acquisition of treasury stocks			(577)
Changes (net) to items other than shareholders' equity during the period	200,496	200,496	200,496
Total changes during the period	200,496	200,496	(1,492,108)
Balance at the end of the period	993,658	993,658	40,707,816

(Note) Amounts are rounded down to the nearest 1,000 yen.

Notes to Financial Statements

I. Matters Relating to Significant Accounting Policies

1. Basis and method of valuation of assets

(1) Basis and method of valuation of securities

1) Shares of subsidiaries and

associates Stated at cost by the moving average method

2) Other securities

Securities with market value Stated at market value based on the market price etc. at balance sheet date
(Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)

Securities without market value Stated at cost using moving average method

(2) Basis and method of valuation of inventories

Basis of valuation is in accordance with the cost basis (with writing down of the carrying value based on any decreased profitability).

1) Merchandise and finished goods Weighted average method

2) Work in process..... Weighted average method

3) Raw materials Principally by weighted average method

4) Supplies Principally by moving average method

2. Method of depreciation of fixed assets

(1) Tangible fixed assets (excluding leased assets)

Straight-line method is used for buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, and declining balance method is used for other tangible fixed assets. Estimated useful lives used for major assets are mainly as follows:

Buildings 3-50 years

Structures 7-60 years

Machinery and equipment 5-9 years

Cars and vehicles 4-10 years

Tools, furniture and fixtures 2-20 years

(2) Intangible fixed assets (excluding leased assets)

Straight-line method is used. Estimated useful life for software for in-house use is mainly 5 years, and those for rights to use facilities are mainly 15-20 years.

(3) Leased assets

- Leased assets relating to finance lease transactions which transfer the ownership of leased assets

The same depreciation method as applied to self-owned fixed assets is used.

- Leased assets relating to finance lease transactions which do not transfer the ownership of leased assets Straight-line method based on the depreciation period equal to the lease period and residual value of zero is used.

3. Reserves and Provisions

(1) Allowance for doubtful accounts

In order to prepare for any losses arising from bad debt receivables, an amount estimated to be unrecoverable is provided. General reserve is calculated based on the past loss experience, and specific reserve is calculated by reviewing the probability of recovery in each individual case where there is concern over claims.

(2) Reserve for bonuses

An amount corresponding to the period out of the estimated amount of bonuses payable to employees is provided.

(3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.

(4) Reserve for retirement benefits

In order to prepare for the payment of retirement benefits to employees (excluding operating officers etc.), an amount estimated to have occurred at the balance sheet date is provided based on the projected benefit obligation and plan assets at the balance sheet date.

When calculating retirement benefit obligation, the benefit formula basis is used to allocate to the current period.

Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over the average remaining service years of employees at the time of occurrence thereof.

For actuarial differences, an amount pro-rated by the straight-line method over the average remaining service years of employees at time of the occurrence thereof in each fiscal year is expensed starting from the fiscal year that follows the fiscal year of occurrence.

In order to prepare for the payment of retirement benefits to operating officers etc., the amount that would need to be paid if all eligible officers retired at the balance sheet date is provided.

(5) Provision for environmental measures

In order to prepare for the disposal costs of PCB wastes as stipulated by the "Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes" the estimated disposal cost is provided.

(6) Provision for loss on guarantees

In order to prepare for loss on guarantees provided to subsidiaries and associates, the estimated loss amount is provided, taking into account the financial position etc. of guaranteed parties.

4. Other significant matters for the presentation of financial statements

(1) Conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses.

(2) Accounting method for retirement benefits

The accounting method for unrecognized actuarial differences and unrecognized past service costs differs from the accounting method for the above items used in consolidated financial statements.

(3) Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax-excluded method.

II. Changes in Accounting Policy

Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

In line with the revisions to the Corporation Tax Act of Japan, the Company applied the practical solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the fiscal year under review. Accordingly, the depreciation method for facilities annexed to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the fiscal year under review is minor.

III. Changes in Presentation

Statement of Income

Proceeds on sale of waste fluids (129,851 thousand yen for the previous period, 143,717 thousand yen for the current period), which was included in “others” under non-operating income in the previous fiscal year, is included in “proceeds on sale of scraps” from the current period due to an increase in materiality.

(Additional Information)

Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

IV. Notes to Balance Sheet

1. Accumulated depreciation of tangible fixed assets	40,181,038 thousand yen
2. Monetary claims and monetary debts to/from subsidiaries and associates	
Short-term monetary claims	9,670,712 thousand yen
Long-term monetary claims	328,373
Short-term monetary debts	5,452,511
3. Liabilities for guarantee	
(1) For employee housing loans etc.	168,298 thousand yen
(2) For bank borrowings	
DAIDO METAL CZECH s.r.o.	1,774,754
DAIDO METAL KOTOR AD	396,504
Daido Industrial Bearings Europe Limited	1,268,290
DAIDO METAL EUROPE LIMITED	924,528
Daido Metal U.S.A. Inc.	5,320,610
Daido Metal Mexico, S.A. de C.V.	2,920,321
Daido Precision Metal (Suzhou) Co., Ltd.	634,995
Daido Plain Bearings Co., Ltd.	137,700
(3) For liabilities on purchases	
DAIDO METAL KOTOR AD	76,497
(4) For lease obligations	
Daido Metal Russia LLC	1,400,669
(5) Relating to letter of awareness submitted relating to bank borrowings	
Daido Industrial Bearings Europe Limited	10,365
(6) For export duties	
DAIDO METAL EUROPE LIMITED	21,255
Total	<u>15,054,791</u>

V. Notes to Statement of Income

Amount of transactions with subsidiaries and associates	
Operating transactions	
Amount of sales	20,293,921 thousand yen
Amount of purchases	17,576,195
Other operating transactions	1,171,059
Transactions other than operating transactions	1,500,871

VI. Notes to Statements of Changes to Shareholders' Equity

Type and number of treasury stocks at the balance sheet date	
Ordinary shares	5,140 thousand shares

VII. Notes on Leased Fixed Assets

Other than fixed assets recorded in the Balance Sheet, office equipment, manufacturing facilities etc. are being used under financial lease contracts, which do not transfer the ownership of leased assets.

VIII. Notes on Tax Effect Accounting

Breakdown of the main causes of deferred tax assets and liabilities

Deferred tax assets	
Devaluation of finished goods and work in process	444,940 thousand yen
Depreciation in excess of tax allowable limit	44,356
Impairment losses	166,594
Accrued business tax	56,739
Devaluation loss of investment in subsidiaries and associates	2,557,271
Devaluation loss of golf club memberships	16,986
Reserve for bonuses	332,622
Reserve for retirement benefits	873,015
Long-term accounts payable	58,196
Others	249,777
Sub-total of deferred tax assets	<u>4,800,500</u>
Valuation reserves	<u>(2,956,789)</u>
Total deferred tax assets	<u>1,843,711</u>
Deferred tax liabilities	
Reserve for compressed entry of fixed assets	(766,565)
Unrealized gain (loss) on securities	(421,913)
Others	(42,787)
Total deferred tax liabilities	<u>(1,231,266)</u>
Net deferred tax assets	<u>612,444</u>

IX. Notes on Transactions with Related Parties

Subsidiaries and associates

Type	Name of company	Percentage of voting rights the Company is holding (or percentage of the Company's voting rights held)	Relation with related party	Nature of transaction	Transaction amount (1,000 yen) Note 11	Account	Balance at the end of period (1,000 yen) Note 11
Subsidiaries	DAIDO METAL SALES CO., LTD.	(Holding) Direct 100.0	Sale of the Company's products, rental of facilities, loans etc. and key management personnel service	Sale of bearing products Note 1	3,095,317	Account receivable-trade	1,445,168
	NDC Co., Ltd.	(Holding) Direct 58.8	Purchase of products etc. manufacturing of the Company's products, sales of the Company's products etc., licensing of technology, lease of facilities etc. and key management personnel service	Purchase of bearing products etc. Note 2	5,420,040	Account payable-trade	1,869,297
	Daido Plain Bearings Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, debt guarantees etc. and key management personnel service	Purchase of bearing products etc. Note 2	9,035,710	Account payable-trade Electronically recorded obligations- operating	870,422 2,238,048
	Daido Industrial Bearings Japan Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, loans etc. and key management personnel service	Transfer of fixed assets Note 3 Loans Note 4	1,412,889 1,900,000	- Short-term loans receivable from subsidiaries and associates Long-term loans receivable from subsidiaries and associates	- 550,000 1,350,000
	Daido Metal U.S.A. Inc.	(Holding) Direct 100.0	Sales of Company's products etc., purchase of products, licensing of technology, rental of facilities, debt guarantees and key management personnel service	Sales of bearing products etc. Note 1 Underwriting of capital increase Note 10 Debt guarantees Note 5	4,840,084 1,449,260 5,320,610	Account receivable-trade - -	1,207,648 - -
	Daido Metal Mexico, S.A. de C.V.	(Holding) Direct 99.9 (Holding) Indirect 0.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key management personnel service	Debt guarantees Note 6	2,920,321	-	-
	DAIDO METAL CZECH s.r.o.	(Holding) Direct 100.0	Sales of the Company's products etc., purchase of products, licensing of technology, rental of facilities, loans, debt guarantees etc. and key management personnel service	Debt guarantees Note 7	1,774,754	-	-
	Daido Industrial Bearings Europe Limited	(Holding) Direct 100.0	Sales of the Company's products, purchase of products, licensing of technology, rental of facilities, debt guarantees etc.	Debt guarantees Note 8	1,621,285	-	-
	DAIDO METAL EUROPE LIMITED	(Holding) Direct 100.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key management personnel service	Sales of bearing products etc. Note 1	3,964,976	Account receivable-trade	1,544,827
	Daido Metal Russia LLC	(Holding) Direct 99.8	Sales of the Company's products etc., purchase of products, licensing of technology, debt guarantees etc. and key management personnel service	Debt guarantees Note 9	1,400,669	-	-

Transaction terms, policies for determining transaction terms etc.

(Note 1) Prices are principally set at the sales prices of each related party to the third party multiplied by a fixed rate.

(Note 2) Prices are principally set at the sales prices of the Company to the third party multiplied by a fixed rate.

(Note 3) The transfer value of fixed assets is determined in accordance with the Company's rules.

(Note 4) Loan interest rates are determined reasonably, taking into account the market interest rates.

(Note 5) Debt guarantees are provided for the bank borrowings (5,320,610 thousand yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 6) Debt guarantees are provided for the bank borrowings (2,920,321 thousand yen) of Daido Metal Mexico, S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 7) Debt guarantees are provided for the bank borrowings (1,774,754 thousand yen) of DAIDO METAL CZECH s.r.o. and guarantee fees of 0.2% per annum are received.

(Note 8) Debt guarantees are provided for the bank borrowings (1,610,920 thousand yen) of Daido Industrial Bearings Europe Limited and guarantee fees of 0.2% per annum are received. In addition, the letter of awareness is provided for the bank borrowings (10,365 thousand yen) of Daido Industrial Bearings Europe Limited. As a result of recording of provision for loss on guarantees amounting to 342,629 thousand yen for the fiscal year under review, provision for loss on guarantees at the end of the fiscal year under review was 342,629 thousand yen.

(Note 9) Debt guarantees are provided for the lease obligations (1,400,669 thousand yen) of Daido Metal Russia LLC and guarantee fees of 0.2% per annum are received.

(Note 10) Underwriting of capital increase is the amount underwritten by the Company to strengthen the capital of Daido Metal U.S.A. Inc.

(Note 11) Consumption taxes are not included in the transaction amounts. Consumption taxes are included in fiscal year end balances.

X. Notes on Per Share Information

1. Net assets per share	1,022.40 yen
2. Net loss per share	(14.49) yen